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TANF SPECIAL AUDIT PROJECT

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Indiana State Board of Accounts

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Introduction

The State of Indiana agreed to participate, along with several other states, in a project initiated by the U.S. Department of Health and Human Services (DHHS), Administration for Children and Families (ACF), to develop a methodology for estimating improper payments in the Temporary Assistance for Needy Families (TANF) program. DHHS is required under the Improper Payments Act of 2002 (IPIA) to estimate and report on improper payments in seven programs, including TANF. Under the TANF pilot, the State of Indiana agreed to undergo an expanded review of TANF expenditures and to issue a separate report containing information including a case and payment error rate. DHHS/ACF will use this information to assess the feasibility of using this vehicle as a means of obtaining information necessary to comply with the IPIA.

The Indiana State Board of Accounts, as the audit agency for the State of Indiana, has performed the procedures agreed upon in the Statement of Work, which was submitted to ACF and signed by officials of the Indiana Family and Social Services Administration (FSSA), Division of Family Resources (DFR), and is herein submitting this final report.

Scope and Objective

The suggested audit procedures contained in the OMB Compliance Supplement include a review and tests of the internal controls and systems placed in operation for the TANF program. However, in the interest of saving audit time and in accordance with permission from HHS (ACF), the focus of the Indiana State Board of Accounts (SBOA) was primarily concentrated on compliance testing of laws and regulations over the TANF program as they pertain to the determination of the recipients' eligibility, allowable benefit amounts paid to and services provided to recipients. Policies, procedures, and systems reviewed included, but were not limited to, eligibility, accuracy of benefit payments, and monitoring of contractors.

The purpose of the review was to determine overall whether the system accurately determines eligibility and benefit payment amounts; to determine whether the system appropriately accounts for eligibility as it relates to the various funding streams (Federal only, commingled Federal and State, State only and separate State programs); to determine if the system accurately tracks individuals served by multiple programs under TANF; and to determine whether the system interfaces with other systems to verify eligibility or in-take information (Medicaid, Food Stamps, law enforcement). For the purposes of this audit, "system" includes, in addition to the Indiana Client Eligibility System (ICES), all policies and procedures in operation for the TANF program and documentation maintained to support input into the ICES.

Computer Systems Utilized by the Division of Family Resources

The Indiana DFR uses the ICES system for TANF, as well as for Food Stamps, Medicaid, and Indiana Manpower Placement and Comprehensive Training (IMPACT). As information about family unit composition, income and resources is entered, the ICES automatically determines eligibility for the various programs and calculates the benefit amount

based on the information entered. On the first day of each month, TANF information is downloaded to a data warehouse maintained by a partnership between the state and two private contractors.

Unless exempted for a viable reason according to the State Plan, TANF recipients are required to participate in the IMPACT program, either in job training, education or another approved activity of the IMPACT. Payments made to contractors of the IMPACT program are approved at the county level, paid by the Auditor of State, and tracked through a contract management system (CMS).

Sampling Approach and Sample Selection

During the 12 month period ending in August 2005, the mean number of families receiving federal TANF benefits each month was 43,856, with the highest number 44,729 (October 2004) and the lowest 42,912 (June 2005). With no significant fluctuations throughout the year, we felt justified in selecting our sample from only one month in the period, August 2005. The number of families receiving TANF cash assistance including federal funds during August 2005 was 43,784 with total dollar payments of \$9,006,793, an average payment of \$205.71. This population size was verified through the Data Warehouse which includes information extracts from ICES and is reconciled monthly by a DFR employee. The total TANF benefits transferred via Electronic Benefits Transfer (EBT) during August 2005 was obtained from the Monthly Management Report, which is also reconciled with ICES monthly.

The sample size of 240 case files was determined through auditing statistical tables based on a 95% level of confidence, 2.5% expected error rate and 5% acceptable upper precision limit.

Our systematic sample with a random start was obtained from the data warehouse file, using cases from the population of 43,784, with a start number of 165 and intervals of 182. Of the 92 counties in the state from which benefit payments could be initiated, the sample of 240 was distributed among 60 counties as follows:

	Number of Sample Items Per Location	Number of Locations	Totals
	1	36	36
	2	7	14
	3	6	18
	4	2	8
	5	2	10
	6	1	6
	8	1	8
	9	1	9
	12	1	12
	13	1	13
	47	1	47
	59	1	59
Totals		60	240

Attributes Tested

Payments made during the month of August 2005 to each family selected in the sample were examined for eligibility and allowability. If the family was also receiving supportive services in addition to benefit payments, the subgrants/contracts for those services were examined.

Cash benefits are supported by case files and other records prepared by the Division of Family Resources containing documentation of eligibility determinations and benefit amounts. Noncompliance was defined as the absence of required documentation or errors in existing documentation that do not support that the DFR properly determined the eligibility of a family and/or that the amount being paid to, or services provided to, the family was correctly calculated.

Criteria used to develop the sampling attributes and to make a determination of compliance or noncompliance is outlined in the OMB Compliance Supplement and the Indiana State Plan, including the State Program Policy Manual. We reviewed each case file and other documents, as well as electronic data files, for 22 attributes, considering an error to be the absence of proof of an attribute.

We examined the case files selected for the following attributes and are reporting the results as shown in the right side columns:

Print coding: black = federal eligibility; red = federal special tests and provisions; green = state plan

Attribute	Total Errors*	Error Rate	Exceeds Tolerable Error Rate
A. A child must be living in the home of a parent or other close relative who has not received TANF benefits for 60 months since December 1996 (unless hardship extension granted by the State, as defined by State)	36	15%	Y
B. The child must be less than 18 years of age or, if a full-time student in a secondary school, less than 19 years of age.	14	6%	Y
C. An unmarried parent under age 18 with a minor child at least 12 weeks old must have a high school diploma or its equivalent or be working toward a high school diploma or an alternative education training program approved by the State.	3	1%	N
D. An unmarried parent under age 18 and the corresponding dependent children must live with a parent.	3	1%	N
E. A child who is being provided assistance has not been absent from the home for 45 consecutive days (unless exception in State plan); grantee relative has provided absence information within 5 days of knowledge of absence.	6	3%	N
F. In the past 10 years, the individual has not been convicted of fraudulently misrepresenting residence in order to receive assistance from two or more states.	240	100%	Y
G. No member of the family unit may be fleeing to avoid prosecution, or custody or confinement after conviction, for a felony or attempt to commit a felony, or be violating a condition of probation or parole.	3	1%	N

Attribute	Total Errors*	Error Rate	Exceeds Tolerable Error Rate
H. The applicant has stated in writing that no household member has been convicted of a felony involving a controlled substance.	4	2%	N
I. Qualified aliens entering the country after August 22, 1996, are not eligible for Federal public benefits for a period of five years beginning on the date of the alien's entry into the country unless they meet an exception at 8 USC 1612(b)(2) or 1613. Non-qualified aliens may not receive Federal public benefits unless one of the exceptions at 8 USC 1612(b)(2) applies. Applicant does not fit these disqualifications.	3	1%	N
J. Any child support rights have been assigned to the State, not to exceed the amount of assistance provided.	5	2%	N
K. Benefits were properly reduced or denied if recipient did not cooperate with State in establishing paternity, or in establishing, modifying or enforcing a support order with respect to a child of the individual.	6	3%	N
L. State used Income Eligibility and Verification System (IEVS) to determine eligibility.	3	1%	N
M. Using IEVS, requested and obtained data from external sources and performed the required data matching.	3	1%	N
N. Properly considered information obtained from data matching in determining the amount of TANF benefits.	12	5%	N
O. Employable members of the family unit participate in the IMPACT program, unless exempt for allowable reasons.	27	11%	Y
P. Assistance was reduced or denied to individuals who refused to work or to participate in State assessments, service plans, job training and placement unless an exception granted under State guidelines.	28	12%	Y
Q. For cases in which the individual is an adult single custodial parent of a child under the age of six and has demonstrated the inability to obtain needed child care to work, determine if benefits were improperly reduced or terminated.	3	1%	N
R. New recipient family income for initial eligibility meets limits in State plan.	5	2%	N
S. Continuing family recipient income remains at or below Federal Poverty Guidelines.	7	3%	N

Attribute	Total Errors*	Error Rate	Exceeds Tolerable Error Rate
T. If new applicant during period, cash resources did not exceed \$1000. If determined eligible prior, \$1500.	4	2%	N
U. Benefit level and calculations correct.	25	10%	Y
V. Benefits discontinued when the period of eligibility expired.	7	3%	N

***Notes:**

1. One of the cases in our sample was already under an agency fraud investigation. This file contained no useful information and resulted in an exception for all attributes.
2. For one of the cases in our sample, even though we made several requests, no file was made available for audit. We assumed that this file does not exist, resulting in an exception for all attributes.
3. For the third case with an exception in all attributes, the case file received was for a different person (daughter of our sample recipient). We requested the correct file, but never received it.

In order to test for the attributes listed, we reviewed the following files and documents for each recipient included in the sample:

TANF case file – Contains applications, information and verification of income and resources, all correspondence, medical records, insurance verification, marriage, divorce and birth records, social security cards, print screens from ICES, and other documentation necessary to prove eligibility and amount of cash benefits.

IMPACT case files (if not included in TANF case file) – IMPACT participation plan, documents verifying required work or education participation activities, and documentation for any sanctions or disqualifications which should be imposed.

Child Support (IV-D) electronic records – We reviewed electronic information on the Indiana Support Eligibility Tracking System (ISETS), to determine whether a TANF recipient had cooperated with county prosecutors to establish paternity, whether support was collected, and whether that support was reimbursed to the DFR.

Sample Results

The sampling parameters and sample size table used provide a 95% assurance that the sample results reported below are accurate.

We computed overall error rates in several different ways as follows:

A total of 447 errors was found for the 22 attributes tested for each case sampled (total attributes tested = 5280), resulting in an overall attribute error rate of 8.5%. Three cases had

errors in all 22 attributes, resulting in 66 total errors. If we disregard those 66 errors, our total errors for the remainder would be 381 for total attributes tested of 5214, an overall attribute error rate of 7.3%, still averaging above the acceptable level of 5%.

Not including attribute F, which had an error in all cases, 62 cases out of the 240 contained at least one error, resulting in an overall case error rate of 25.8%.

Included in the errors were 18 overpayments for a total of \$2,749. Other payment errors existed for which the amount could not be definitively determined. The sample of 240 cases resulted in an actual dollar value of selected items of \$53,402; therefore, the payment error rate is 5.15%. Projecting to a total population of \$9,006,793 would result in overpayments of \$463,646 for the month of August 2005.

Error rates for six attributes exceeded the tolerable error rate of 5%. Problems found during our review of those six attributes are discussed in the Findings section of this report.

Contractor Testing

Our *Statement of Work* states that we will review contracts associated with any of the case files in our sample to assure that the content of contracts is clear and appropriate, that compliance with contract terms is maintained, and that monitoring is accomplished through periodic site visits. Contractors receiving TANF funds are a part of the IMPACT program, providing services related to job training, education and employment. One of the seven contracts reviewed for FFY 2005 did not include evidence of monitoring; a second documented concerns and findings in the monitoring letter, noting that corrective action should be completed within 30 days of the date of the letter (May 12, 2005), but no follow up was noted.

Findings of TANF Testing

Finding #1 – Attributes A and B

OMB Circular A-133 Compliance Supplement eligibility requirements for the TANF program requires that, in order to be eligible for federally funded TANF benefits (in whole or in part), a family must include a child, who is living in the home of a parent or other close relative who has not received TANF benefits for 60 months since December 1996 (unless a hardship extension is granted by the State, as defined by the State), and the child must be less than 18 years of age or, if a full-time student in a secondary school (or equivalent), less than 19 years of age.

The State Program Policy Manual, section 2420.05.05 states, "It is the responsibility of the applicant/recipient to assist the caseworker to verify the degree of relationship between a child and a specified relative." A list of acceptable documents for verification of relationship is included in this manual.

Birth certificates or two other sources, as listed in the State Program Policy Manual, section 2420.05.05, can be used to determine not only the age of a child, but also the relationship of the child to the head of household. In 28 of our case files, adequate documentation was not included which would prove the relationship of minor children to the head of household. Fifteen case files did not contain adequate documentation to show that the child was either less than 18 years of age or less than 19 and a full-time student.

The State of Indiana received a waiver from the federal government to delay beginning the 60 month countdown until April 1, 2002. (State Program Policy Manual, section 2452.00.00) Thus, no family could reach this level until April 2007. Eleven instances occurred in our sample which included verification that the family had, since April 1, 2002, lived in another state and had either collected benefits in that state, or it was not documented whether benefits were collected in another state. In none of the 11 cases was the number of months of benefits determined or recorded that would ultimately count toward the 60 month maximum.

Finding #2 – Attribute F

OMB Circular A-133 Compliance Supplement eligibility requirements for the TANF program state, "A State may not use funds to provide cash assistance to an individual during the 10-year period that begins on the date the individual is convicted in Federal or State court of having made a fraudulent statement or representation with respect to place of residence in order to simultaneously receive assistance from two or more States under TANF" A waiver for the State of Indiana which expired in April 2002 allowed for a lesser time period than the 10 years.

The State of Indiana has had no system in place to determine whether a recipient (or applicant) has a conviction in Federal or State court for fraud with the intent of collecting TANF benefits in more than one state. At the present time, this penalty would be imposed only if the DFR was made aware of such a conviction through an interview or another source. We are of the understanding that the Public Assistance Reporting Information System (PARIS) is intended to share such information between states and that 26 states presently participate in this venture. Participation in PARIS is voluntary; the State of Indiana to-date has not participated, but we were informed that they plan to in the near future.

Due to the inability of the DFR to track convictions of fraud in order to simultaneously receive assistance from two or more states, we noted an exception for this attribute in all 240 cases sampled.

Finding #3 – Attributes O and P

OMB Circular A-133 Compliance Supplement eligibility requirements and special tests and provisions for the TANF program require an adult family member to work, unless excused for good cause, such as the unavailability or unsuitability of child care for a child who is less than six years of age or other just cause as defined in the State rules. The State Program Policy Manual, sections 3438.45.25 and 2438.15.10.05, notes other exemptions from participation in the IMPACT work program, including employer discrimination, unreasonable work demands or conditions, relocation, and violations of health and safety standards.

We found 27 instances that we considered exceptions due to lack of evidence that a person determined to be mandatory for participation in IMPACT was actually participating (Attribute O) and 28 instances where it appeared that sanctions should have been imposed but were not or, in one case, the sanction was incorrectly calculated.

Receipts for reimbursements for IMPACT related expenses were included in some files and appeared to be for allowable services as noted in the State Plan.

Finding #4 – Attribute U and V

We reviewed all payments made to families in our sample to determine whether the correct amount was credited to the EBT cards during the month of August 2005. For purposes of determining the dollar amount of overpayments (or underpayments), we included **only** those cases for which we could be certain of both the amount and the error. Probable overpayments existed in other cases, but the amount of overpayment could not be determined without further research beyond the scope of this project.

We included as exceptions to Attribute U 23 overpayments of benefits and to Attribute V two overpayments; for 18 of these, we could readily determine the dollar amount. The total overpayment in dollars for those 18 cases was \$2,749, which included the fraud case but did not include payments made to families represented by the two missing files. Taking this conservative approach, when projected to the total population for the month of August 2005, the projected overpayment for that month would be \$463,646.

Reasons for overpayments varied and were distributed over the following:

1) Income too high; 2) Adults mandatory for IMPACT exceeded the 24 month limit; 3) No IMPACT or Child Support sanctions imposed, although deemed necessary; 4) Children should be capped or child on SSI; or 5) Other miscellaneous reasons, including the fraud case.

Other Concerns

Two situations seemed to be very common throughout our review. One, proof of the relationship of a child to the applicant was often missing or questionable. The State Program Policy Manual lists, among other items, that this relationship is verified when the caseworker "sees the child's birth certificate." The case worker is not required to copy this document and include the copy in the case file. As auditors, we are entitled to a bit of "professional skepticism"; we want to see the confirming document. One other potentially questionable verification of relationship listed in the manual is a "signed statement from an unrelated reliable person having specific knowledge about the relationship of the child to the specified relative." This leaves the case worker in the precarious position of having to decide who is "reliable". We see possibilities for manipulation of the system with these loosely defined criteria.

Another situation that appeared to be very common was a prevalence of recipients deemed to be mandatory for IMPACT combined with a lack of documentation that the recipient was participating in the IMPACT program. In several cases, a determination of "no participation" was made but, months later, sanctions had not been imposed. We also noted several cases where overpayments were noted, but no reduction of benefits was made to recoup these overpayments.

In the ICES entries, we noted frequently the use of "client statement" as verification code for many attributes (i.e., age, relationship, citizenship, income and resources) for which the Policy Manual clearly requires a greater level of verification. Also, the TANF "Running Record Comments" and the IMPACT "Comments" screen contained little or no documentation. Often many months, or years, would pass with no entries although the case was active throughout the period. If these records had been kept up-to-date, errors may have been prevented and the case could more easily be followed by others accessing the information.

We noted major discrepancies from county to county regarding documentation and follow up. For example, case workers in some counties would check the living situation statement made by an applicant by contacting the school or other known organization to verify while, in other counties, the applicant statement appeared to be accepted without question.

Although the scope of our work did not include an extensive review of internal control, it appears evident that whatever control procedures have been established by the central office are not widely implemented at all local offices. Rather, controls in place seem to be determined by each local director and vary widely.

Conclusion

This final report has been prepared under the terms and conditions of the grant award made by HHS to the State of Indiana Family and Social Services Administration, Division of Family Resources, for the Indiana TANF A-133 Audit Project. The content of this report will remain confidential to the Indiana Family and Social Services Administration, the Indiana State Board of Accounts, the U.S. Department of Health and Human Services and other federal agencies as HHS deems appropriate under the circumstances. Error rates will be reported in the HHS FY2006 Performance and Accountability Report. The above findings, along with related questioned costs, recommendations and a corrective action plan, will be included in a public release of the *State of Indiana Single Audit of Federal Financial Assistance Programs Performed in Accordance with the Single Audit Act Amendments of 1996 (Public Law 104-156) and U.S. Office of Management and Budget Circular A-133* covering the period July 1, 2005, through June 30, 2006, to be issued in March 2007.